

REFEREE REPORT

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Title: "Occupational Upgrading and the Business Cycle in West Germany"

Authors: Thomas Büttner, Peter Jacobebbinghaus, and Johannes Ludsteck

This paper addresses the question whether firms in booming periods (have to) hire lower skilled workers due to problems in hiring the better skilled ones. Using an analytical framework in the spirit of Devereux (*Labour* 2002) they are testing their hypothesis using (employee) records of new hires in West German for the period 1994-2004. The findings indicate that the skill composition of new hires changes over the business cycle, even within occupations. The paper is somewhat interesting, but several improvements would make the paper even more interesting for a reader with general interests in economics.

The authors could easily have utilised their data much more efficient. Now the authors are using occupation-year cells. That means that they are throwing away all firm-level variation and instead base their analysis on aggregate variables. One solution would have been to make shares of low-skilled workers at firm level. Then the authors could utilize firm characteristics. Due to the way the authors set up the model, they cannot use ("the workhorse") OLS and instead have to rely their empirical analysis a grouped probit model. This is mainly caused by their use of aggregate unemployment rate for Germany. But the authors know where the firms are located. Thus, they could easily build up more disaggregated unemployment rates and therefore complement their current analysis with OLS estimates (which would be more easily understood by the general reader). Using more disaggregated unemployment rates may also be more relevant if the regional mobility among workers is low.

In their writing the authors are positioning themselves very closely to Devereux *op.cit.* Thus, the reader gets the impression that this paper is just a replication, not something new. What I find interesting is that changes in skill composition over the business cycle also takes place within the German labour market, commonly known as heavily standardised and regulated with strict certification requirements for several occupations. But this might also be the curse of the blessing; i.e. the authors need to argue much better why the occupational change over the business cycle is possible in such a labour market. I therefore recommend a substantial rewriting and rephrasing. Furthermore, the paper is quite long and should be shortened. The current version is 23 pages (single-lined?).